



1924



Economic Conditions Governmental Finance United States Securities

New York, July, 1924

General Business Conditions

THE weather conditions in June have been sufficiently favorable to enable the crops to make a pronounced gain upon the backward state in which they were at the beginning of the month, and the outlook for them now is generally good. Moreover, price developments have been very favorable to all grains, and the advances which have taken place, together with the improvement in growing conditions, have created a much better feeling in business circles throughout the regions in which agriculture is the leading interest.

An increasing state of ease in the money markets, marked by further reductions in Federal Reserve bank rates, has stimulated activity in the bond market. New issues have been numerous and the entire list has been advancing. The same influence has affected investment stocks and the stock market in general reflects increasing confidence.

The industries have continued on a declining scale of operations, recessions having been general and unusually rapid since the middle of April, without as yet any signs of early recovery. The precipitate character of the decline is due in less degree to any fundamental development than to a change of sentiment regarding the business outlook. Special conditions in several industries contributed to this change, but probably the most influential factor was a general feeling that railroad expenditures and building operations, which have figured so largely in industrial activity for two years, had reached a declining stage. As the opinion spread that production had reached the crest for the present, and that prices were more likely to decline than advance, a general falling off of commitments naturally followed. The movement has been more pronounced from the fact that certain important industries have not shared in the prosperity of the past year.

Reports of slackening industry have been general, and definite in character. Employes on payrolls of factories reporting to the New York Department of Labor numbered 503,000

in May, 1924, as against 524,000 in April and 560,000 in May, 1923. Car-loadings, one of the most trustworthy indices of business activity, have been running below those for the corresponding weeks of last year, and the earnings statements of the companies are showing the effects. Pennsylvania freight earnings for May were about \$12,000,000 under those for that month of 1923, and the first 42 railroads to report earnings for May show a decline in gross of 13.7 per cent from last year. The loadings of revenue freight for all roads thus far this year compare with corresponding periods of previous years as follows:

	1924	1923	1922
4 weeks of January	3,362,136	3,373,965	2,785,119
4 weeks of February	3,617,432	3,361,599	3,027,886
5 weeks of March....	4,607,706	4,581,176	4,088,132
4 weeks of April.....	3,499,210	3,764,266	2,863,418
5 weeks of May.....	4,474,751	4,876,893	3,841,683
Week ended June 7	910,707	1,012,312	836,208
Week ended June 14	902,710	1,008,838	848,657
Total.....	21,374,652	21,979,049	18,291,101

It will be seen that traffic is still well above what it was in 1922, and this is true of business generally. Moreover, if the decline of 106,128 carloads in the week ended June 14 is compared with the corresponding week of last year, it will be noted that 73,945 were in loadings of coal, coke and iron ore, and that in loadings of merchandise and less than car lots the total, 241,627, was only 1,891 less than last year, or about $\frac{3}{4}$ of 1 per cent.

The iron and steel industry has suffered a heavy falling off of new orders, and as a whole is operating at less than 45 per cent of capacity, but this does not signify that consumption has fallen off to that extent. Stocks in all hands are being reduced, and representative operators believe that the current rate of consumption will require a higher rate of production before many months.

The production of automobiles has fallen off largely in the last three months, but it must be considered that it broke all records in the first three months of the year, when operations were in anticipation of Spring sales. "Automotive Industries" states that for the six

months ending June 30, the production of automobiles and trucks will be but little if any under that of the corresponding months of last year.

Reports about building operations vary with different localities, but Bradstreet's report of permits issued in May shows a total about 10 per cent higher than in that month of last year. On the whole it appears that there is plenty of work in sight for this year.

Price Changes

Price changes in May according to the Bureau of Labor tables, lowered the index number for all commodities from 148 in April to 147. The index number for May 1923 was 156, and for February, 1924, was 152. In May the metals and metal products group showed the greatest decline, from 139 to 134, while farm products came next, with a decline from 139 to 137, which probably has been recovered by this time. The Iron Age composite figure for pig iron is below \$20 per ton for the first time since 1922.

The slackening of business no doubt is largely due to misgivings that lower prices may be impending, but the change thus far over the entire list is comparatively small, and as business generally is operating upon small margins of profit important price reductions cannot be made without a general reduction in the prime factor of all costs, which is labor. Few people believe that anything like sweeping wage-reductions are in prospect in the near future, although many students of the subject hold the opinion that an enduring state of prosperity will not be realized until certain important readjustments in price relations are made.

The textile and clothing industries are having very dull times, which in the case of cotton and woolen goods seem to be chargeable to high costs all the way from the raw materials to the finished goods. Wages in the clothing industry are from 200 to 300 per cent higher than before the war, but this statement ought not to be made without the added statement that they were too low before the war, when they were affected by unrestricted immigration and sweat-shop conditions in New York. Nevertheless, the increase has been very large. Classes of workmen may be named who were getting \$12 per week before the war and are now receiving \$40 per week. In addition to higher costs in the manufacture of clothing, are those in the manufacture of cloth and in cost of raw materials, all having a part in making clothing very dear to the millions of people.

Moreover, these high wage rates are not producing the benefits expected of them, because work is on a part-time basis. A dis-

patch from Rochester, which is one of the important centers of the clothing industry, telling of the renewal of the wage scale for another year, says that the manufacturers hesitated to press for a reduction of the scale because they have not been able to give full-time employment. It is, however, a pertinent question all through these industries whether the high cost of goods is not the principal cause of the slack trade.

The cotton goods manufacturers and the labor organizations of that industry have asked for an increase of protective duties to keep out foreign goods, but the Tariff Commission, in deciding against taking up the case, points out that the importations amount to a very small percentage of the domestic production. The fundamental trouble is low consumption, due to the high prices, and the prices are due to very high costs, compared with pre-war figures.

The shoe industry is in much the same situation, except that the chief raw material, leather, is but little above pre-war prices. Wages have been high, but in some of the principal Massachusetts shoe centers wage reductions up to 20 per cent have been recently obtained after an amicable study of conditions.

It is probably true that if none of the wage increases which were made in the Spring of 1923 had been made, the wage-workers of the country as a class would be in better position, as regards their command over the necessities and comforts for which wages are spent, than they are now. Wage advances are paid by the people who consume the products, and if their effect is to make industry unstable and employment irregular, even the recipients of the nominal increases may be worse off for them.

Production vs. Consumption

It is frequently said that the capacity of American manufacturing establishments has been developed much beyond the ability of the country to consume their products. Of course it is necessary that in some lines we have capacity in excess of our own consumption, in order that we may have exports to pay for the goods which either of necessity or choice we are accustomed to import. After allowing for this, however, if we make more goods than we can consume it is either because we have over-developed some industries and under-developed others, or because the terms of exchange are out of adjustment. We can readily consume all that the labor of this country can produce, and a great deal more, if things are produced in the right proportions and are valued to each other in the right relations. It is simply a problem of arranging the exchanges. Our wants are ample enough.

The chief element of instability in the industrial situation at present is the high level of prices for manufactured goods as compared with the prices of farm products and crude materials generally. The producers of these low-priced products have not the purchasing power to take their accustomed quantities of manufactures. In like manner, the high cost of building houses puts that industry in a precarious position. There is want of confidence in the entire industrial situation, because it is felt to be on an artificial basis, and at the first signs of slackening activity alarm spreads in all quarters, causing losses to wage-workers, employers and all business.

The country will come out of the prevailing depression when present supplies of goods are used up, but it should endeavor to understand the reason for these alternating periods of depression and activity. Why do goods accumulate in apparently excessive stocks, requiring shut-downs until they are worked off? Is it because there are more goods than the people want, or because the price relations have been disturbed and prevent the normal exchanges? If the latter is the case, as undoubtedly it is, all parties are interested in correcting the situation.

Agricultural Conditions

The McNary-Haugen bill for raising the prices of wheat, corn and certain other farm products failed to pass, but in the past month natural influences have worked a decided change in the market position of some of the commodities. There is a reduction in the acreage of wheat in this country, and the government report on condition June 1st indicates a reduction in yield of 93,000,000 bushels. The Winnipeg Free Press is out with an estimate that the Canadian crop will be less by 100,000,000 to 150,000,000 bushels, and in Europe the prospect is for a smaller crop. European imports of late have been running so large that the carry-over in exporting countries will be much less than was thought probable a few months ago. Foreigners have been buying freely, and apparently there has been a pronounced change in world opinion upon wheat. On the Chicago market the July delivery, which was selling three months ago around \$1.03 per bushel, is now about \$1.15.

And with all this, the crop promises to be a very good one in quality and acreage yield. Harvesting is well advanced in the Southwest, and while there are reports of some damage from heat, they are not general. In the Spring wheat states of the Northwest the crop is heading out with the best prospects in several years.

The corn crop had a bad start, and although the original acreage was about 3 per cent larger than last year, opinion in the corn states

is that the crop is likely to be considerably under last year's yield. In consequence, the price of old corn, which for July delivery in Chicago not long ago was under 80 cents, is above 95 cents. Oats are up 8 or 10 cents per bushel. Butter, which a few weeks ago suffered a slump, has made a recovery, and is going into storage at higher prices than last year. About butter the New York Produce Review has this to say:

Foreign markets are not the menace that they were a year ago. Conditions in Central Europe have improved so much that those countries have taken a good deal of Denmark's surplus, reducing the supply available for the British markets and maintaining a considerably higher level of values than last year.

These price changes have demonstrated how quickly the situation as to agriculture may be radically altered by the relations between supply and demand. The markets during the past year have been weighted down by abnormally heavy offerings, but the moment relief is had from them there is a quick recovery. This change vindicates the attitude of those who have opposed artificial remedies. There could be no real remedy for the depression except by the readjustments which now appear to have been already well under way.

The Department of Agriculture, in the June bulletin of the Bureau of Economics, makes the statement that agriculture has reached the best state of balance that it has had since 1920. It predicts a smaller run of hogs next Fall and Winter and consequently better prices. It also makes the statement that in recent years the average agricultural production, per capita of the farm population, has been 18 per cent higher than in the five-year period centering upon 1910.

The land planted to cotton this year is estimated by the Commercial and Financial Chronicle at 41,018,000 acres, which compares with the government estimate for 1923 of 38,709,000 acres. The crop, however, has a late start, which works against it in various ways. Opinion in the trade is that chances are against getting over 12,000,000 bales, which is less than the annual consumption. The carry-over is so small, that this amount will afford a scant supply. The price is close to 30 cents per pound for the July delivery, but 4 or 5 cents per pound less for the new crop deliveries.

Money and Banking

Money is easier the country over than at any previous time since the war and at present a plethora exists at New York. The demand for money and credit usually relaxes at this season, but this year the tendency has been accentuated by the slowing down of business, which began about three months ago and has become

much more than a seasonal movement. The demand for trade purposes is very light, and the supply of banking funds at the centers has been increased from various sources.

At New York importations of gold have been a leading factor, and apparently an excess of government disbursements over receipts at this point in the past month has contributed to the local situation. The developments here since the middle of April have been quite remarkable, the deposits of the clearing house banks having increased from \$4,297,584,000 on April 12 to \$4,824,142,000 on June 28, or by the sum of \$526,558,000,000. It would be natural to attribute this increase mainly to the transfer of idle funds from the country, but the facts do not appear to support this view. The best information available as to the state of the banks over the country from week to week is to be had from the weekly reports of the member banks of the larger cities to the reserve banks. These reporting banks, numbering about 750, have about 65 per cent of the assets of all the member banks and approximately 50 per cent of the assets of all the commercial banking institutions in the country. As they are located in all parts of the country their reports give a fairly good cross-section of banking conditions, although the city banks predominate.

On March 26, 1924, which is about the date when commercial loans reached their highest point in 1924, the loans classified as "commercial loans" in these reporting member banks aggregated \$7,997,853,000, and on June 18 the aggregate was \$7,875,646,000, a decrease of \$122,207,000. These comprise "all other loans" besides those made on stocks and bonds as collateral security. Between the same dates the total of all loans, discounts and investments in the same banks rose from \$16,579,757,000 to \$16,870,782,000, an increase of \$291,025,000. Allowing for the decrease in commercial loans shown above, it is evident that loans on stocks and bonds, together with investments, increased in the sum of \$413,232,000.

Examining where these changes occurred we find that the member banks in New York City had a decline in "other loans" from \$2,299,385,000 on March 26 to \$2,203,561,000 on June 18, or of \$95,824,000, but an increase in "loans, discounts and investments" from \$5,256,806,000 to \$5,543,682,000, or of \$286,876,000. Thus it appears that the increase of loans and investments in the country since March has been practically all in New York.

Outside of New York the decrease of commercial loans amounted to \$26,423,000, while the increase in loans on stocks and bonds and in investments was \$30,532,000. This indicates that the reporting banks outside of New York have had no release of funds, and apparently

cannot have sent any large amount to New York. Such other information as is available tends to confirm this view.

Position of the Reserve Banks

The consolidated statement of the Federal Reserve banks for June 25 shows total earning assets at \$826,260,000, against \$1,114,000,000 a year ago. The low point of the year was on May 21, when they were \$795,499,000. Bills discounted now stand at \$350,131,000, against \$774,963,000 in the corresponding week of last year, but holdings of government obligations are \$429,794,000, against \$134,976,000 one year ago. Reserve deposits are higher by \$167,000,000 than a year ago. This increase would seem small in view of the additions to the country's gold stock during the year, but it must be borne in mind that much of the gold turned in by member banks has been applied to the payment of rediscounts.

The reserve banks, with the exception of Minneapolis and Dallas, have reduced their discount rates in recent weeks. Boston, New York and Philadelphia have made two reductions, viz., from 4½ to 4 and to 3½, while Cleveland, Richmond, Atlanta, Chicago, St. Louis and San Francisco have stopped at 4. The other three maintain the 4½ rate. The 3½ per cent rate is the lowest rate maintained at the present time by any central bank in the world, and the New York rate on bankers' acceptances is now lower than that of any other market.

Source of New York's Surplus Funds

In view of the figures given above as to the present volume of loans and investments in banks outside of New York, the question naturally arises as to where the great increase in the deposits of New York banks since March 26th has come from? It is natural to think that they must have been transferred from somewhere, but in fact they seem to have been largely created here by the loans of the New York banks, which would mean that their real source has been in the gold imports from Europe, which have aggregated \$197,000,000 since January 1st and approximately \$120,000,000 since April 1st. As stated above, the reserve deposits of all member banks have increased in the past year by about \$167,000,000, and from March 26th to June 28th by \$122,951,000. Of this latter sum \$74,507,000 has gone to swell the reserve deposits of the New York banks, and upon this they have builded the greater part of the deposits added since March. Of the gold imports received prior to March, a large part, as stated above, were used in reducing rediscounts at the reserve banks, and were not available as the basis of new credit.

The Influence of Gold Imports

All gold imports go to the reserve banks, for the credit of the depositing member banks, who may increase their own loans or investments from about 7 to 14 times the amount of these reserves. That is to say, member banks are free to lend subject to their reserve requirements, which are, in central reserve cities, 13 per cent of their demand deposits; reserve cities 10 per cent; country banks, 7 per cent; for all time deposits 3 per cent. This possible credit expansion is without borrowing from the reserve banks, who may increase their own loans until their outstanding liabilities are about $2\frac{1}{2}$ times their reserves. The reserve banks have been depositing gold with the Treasury and putting the gold notes into circulation instead of their own notes. The only effect of this policy is to keep down the percentage of the reserve bank's reserves, and in this way limit its own part in credit expansion. It does not affect the ability of the member banks to make loans against their reserve deposits as stated above. Its effect therefore as a means of restricting loan expansion is comparatively slight, and nothing at all until the member banks desire to increase their reserves by rediscounting.

In the past several years the effects of the inflow of gold have been offset in considerable degree by the action of the member banks in reducing the volume of rediscounts at the reserve banks, but at the present low ebb of rediscounts this influence is about exhausted.

It is true that the temper of the public is against inflation, but the appeal of cheap money is very alluring, and the inevitable policy of bankers, who are operating under heavy fixed charges, is to use their available earning power to the limit, even at low returns. This has been strikingly illustrated in the last three months, when commercial demands for credit were declining, by the increased loans upon stocks and bonds and increased purchases of bonds by banks for their own account, as shown by the foregoing figures.

The usual course of the credit cycle is from a period of expansion into one of contraction, debt-paying and business depression—accumulation of funds in the centers—low interest rates, which create a demand for bonds, good stocks and ultimately stocks not so good—revival of enterprise, stimulated by a good market for bonds and stocks—rising commodity prices, resulting from the revival of enterprise and industry—general demand for credit to buy everything on rising markets—increasing speculation on narrowing margins—over-trading and collapse.

Cause of Gold Importations

Last year at this time it looked as though the inward gold movement was about at an end. The merchandise trade balance in favor of the United States for the year ended June 30, 1923, was only \$175,818,789, and from January to June imports exceeded exports. The pound sterling was worth in June about \$4.60. But during the fiscal year just closed exports have exceeded imports by about \$700,000,000. The election campaign last year in England, in which the Labor party advocated a capital levy, and an official speech about that time which carried a suggestion of monetary inflation as a remedy for unemployment, together started a transfer of investments to the United States, and this conversion of funds had an influence in lowering the value of sterling in dollars. Payments on the British debt to the United States have been a factor in gold shipments and the rate of exchange. Sterling exchange is now at about \$4.32, and gold shipments are coming with no signs of a let-up.

Effects of the Gold Movement in Europe

It is evident that this movement of gold to the United States is making more difficult the stabilization of foreign monetary systems, which is a necessary step to the reestablishment of normal industrial conditions in Europe. Austria, Hungary, Poland, Russia, and the smaller countries of eastern Europe are trying to get on a gold basis. The governments of Sweden and Denmark have been borrowing heavily abroad to enable their central banks to stabilize their currencies and resume free gold payments. The Bank of the Netherlands has been paying out gold as part of a policy to promote the general movement. The Dawes Committee plan for the reconstruction of Germany and settlement of reparations depends upon getting Germany upon a gold basis. By reason of the fact that relations between the currencies of Europe are largely through the relations they all have with the pound sterling, it is an essential part of the general program that Great Britain shall resume free gold payments, but this and all the rest is impracticable so long as there is such a tendency for all free gold to flow to the United States. The exchanges must be brought into a state of equilibrium before free gold payments can be maintained for very long anywhere outside of the United States.

In all the countries of Europe that are striving to reform their monetary systems interest rates are very high; in Germany and Poland, they are said to be, commonly, 50 to 70 per cent. The effect of this situation upon industry may be imagined. The rates signify a desperate effort to obtain relief by attracting capital and the most effective way in which

relief can be had is by importations of gold which will serve as the basis of bank credit. This relief is made more difficult, if not impossible, by the continued flow of gold to the United States. No matter from what country of Europe gold is withdrawn, the influence is felt throughout the other countries. The phenomenon is presented of gold flowing from the part of the world where it is most needed to the part where additional supplies are not needed, and are a menace to financial stability.

International Debts as a Factor

In pre-war times, when all the countries were on a gold basis, the movements of gold between them were readily controlled by means of the discount rates of the central banks, but in the disordered state of trade and the exchanges now existing, with such abnormal factors as the international debts complicating the relations, this ordinary banking expedient cannot be relied upon to control the situation. What influence can the discount rates of the Bank of England have upon the payments which must be made to the United States Government?

It is agreed in financial circles of London that if the pound sterling is to be raised to the old parity and free gold payments resumed, the discount rate must be raised, and the price level in Great Britain lowered. This is the accustomed method of counter-acting inflation, but to many people it does not sound like a good remedy for depression and unemployment. Nevertheless, it seems clear that in resuming free gold payments England must have exports enough to establish an equilibrium of in-and-out payments, including the payments upon the debt to the United States.

A lively controversy is going on in London over this question. Mr. Walter Leaf, Chairman of the Board of the Westminster Bank, having recently come out in advocacy of an advance in the discount rate of the Bank of England from 4 to 5 per cent, the financial editor of the London Times comments upon the objection raised thereto in a way which shows the real issue. He says:

A well-known merchant writes to criticize Mr. Walter Leaf's suggestion that Bank rate should be raised to 5 per cent with the avowed object of restoring the pre-war gold parity and a free gold market. "Before we embark on such a venture," he says, "would it not be well to consider the results to industry and employment that would ensue?" The writer obviously has in mind the fact that a rise in Bank rate could only become effective in restoring the gold standard if it improved the purchasing power of the pound relatively to that of the dollar—in other words, by lowering the British price level by about 10 per cent. It may certainly be assumed that Mr. Leaf has had in mind all the effects that dearer money would have upon industry and employment—the long as well as the short effects. Clearly, he believes—and it is a belief that has the support of long historical experi-

ence—that industry and employment have more to gain than to lose from the restoration of the gold standard. The temporary disturbance of trade which a 10 per cent fall of prices would cause would count for little, in his opinion, against the much greater and more permanent advantages which a lower price level and permanent stability of exchange would bring. To holders of commodities the immediate effect of a rise in Bank rate is one which looms largest in their view, though it is merely an incidental feature of the operation of a policy that aims at a much bigger objective. To Mr. Leaf the important thing is to restore absolute stability of the pound sterling in terms of gold as soon as possible. Doubtless he has in mind the fact that money rates are lowest in the gold standard country (America) and highest in the countries with "stabilized" non-gold standard currencies. It seems to us that the essential difference between our correspondent and Mr. Leaf is the difference between the short and the long view.

* * *

We should like to believe that it would be possible to restore the gold standard with a rise of only 1 per cent. in Bank rate: the gain would be very cheap at the price.

Evidently debt payments are an abnormal factor in the situation, and if payments should be begun on other indebtedness to this country the difficulty about reestablishing the world equilibrium would be increased. This is not saying that the debts should be cancelled, but simply recognizing that payments upon them during this time of reconstruction, and by means which require great transfers of gold, are an embarrassment on both sides of the transactions. The debt payments are not the only factor in the gold movement; there are enough troubles without them, but they are super-imposed upon the rest. The subject is one requiring careful attention, for it is certain to be one of the principal matters under discussion in any international conference upon European reconstruction.

The Bond Market

The bond market has been very strong and active during the past month, in response to conditions which always stimulate buying, to-wit, cheap money and slackening trade.

Liberty bonds have been steadily rising, all issues excepting the tax-exempt $3\frac{1}{2}$ s selling at new high records in the last week of June.

The Dow-Jones figures for the combined average of 40 bonds (10 high grade rails, 10 second-grade rails, 10 industrials and 10 public utilities) on June 27 was 90.33, as against 87.25 February 28. The level is now only about two points below the high figures of 1922, and conditions favor a continuance of the movement. Bonds advanced in 1919 with the slackening of industry after the war, declined with the revival of business in the latter part of 1919 and 1920, and made a striking advance from 1921 to the Fall of 1922, when another revival of business caused a realizing movement and consequent decline. Throughout these years the digestion of the great war output of bonds has been constantly going

on, and the country has been making good the deficit in capital accumulations which resulted from the diversion of normal savings to war purposes. Evidently as this process goes on, the natural trend is to lower interest returns, and just now the trend is accelerated by a surplus of funds in the banking field.

The United States Treasury closed its fiscal year June 30, with a surplus of income over expenditures of more than \$500,000,000, and having reduced the public debt during the past year by more than \$1,000,000,000. The debt now has been reduced from the peak in 1919, by more than \$5,000,000,000.

The most notable offering of the month was \$150,000,000 Treasury Certificates of Indebtedness, running 6 months, bearing interest at 2 3/4 per cent. This compares with a Treasury offering of the same amount, for the same time, at 4 per cent on June 15, 1923. Subscriptions to the last offering aggregated \$609,000,000, and the allotments aggregated \$193,000,000. As customary with government offerings, small subscriptions were given the preference, and no allotments were made upon any subscriptions for more than \$100,000.

Next to the Treasury offering in size was that of \$67,400,000 of gold corporate stock and bonds of the City of New York, of which particulars are given in the list below.

Among the important new offerings of securities during the month of June were the following:

\$150,000,000	U. S. Treasury Certificates of Indebtedness, dated June 16, 1924, due Dec. 15, 1924, bearing interest at 2 3/4 per cent per annum.
\$20,000,000	Cleveland, Cincinnati, Chicago and St. Louis Ry. Company 5s due July 1, 1963, price 94 1/2 to yield 5.84 per cent.
\$11,433,000	Los Angeles, Cal. Various Improvement 4 1/4 and 4 1/2 per cent Bonds, prices yielding from 3.75 per cent to 4.00 per cent.
\$9,000,000	State of Illinois Highway 4s, maturing 1935 to 1944 incl., price 98 for all maturities, or an average yield of about 4.16 per cent.
\$11,000,000	State of New Jersey 15 yr. Road, Bridge and Highway Improvement 4 1/4 per cent Bonds due 1954 (optional 1939) and 1939—price 102 1/4—yield 4.05 per cent.
\$67,400,000	City of New York 4 1/4 per cent Gold Corporate Stock and Bonds, \$30,400,000 Bonds for Schools and various Municipal purposes, due 1925 to 1939 incl. at prices 100.731 to 102.800, yielding 3.50 per cent to 4 per cent; \$37,000,000 Corporate Stock for Rapid Transit and Water Supply purposes; price 102 1/4, yielding about 4.15 per cent.
\$8,500,000	Chicago Rapid Transit Company First & Refunding Mortgage 6 1/2s Bonds, due July 1, 1944, price 94 1/2 and interest—yield over 7 per cent.
\$10,000,000	The Chicago, Rock Island and Pacific Railway Co. 5 per cent Secured Notes due July 1, 1929—Price 99, yield over 5.20 per cent.
\$20,000,000	Puget Sound Power & Light Company First & Refunding 5 1/2 per cent Bonds, due June 1, 1949—Price 96 1/2, yielding 5 1/2 per cent.

\$26,058,000	The New York, Chicago & St. Louis R.R. Company (Nickle Plate System) Refunding 5 1/2 per cent Bonds, due April 1, 1974, price 94 1/2, yield about 5.84 per cent.
\$35,000,000	Federal Land Bank 4 1/4 per cent Bonds, due July 1, 1954, price 101, yield about 4 1/4 per cent.
\$18,000,000	Chesapeake & Ohio 5 per cent Equipment Trust Certificates, maturing 1925 to 1939 incl. 100 all maturities.
\$10,000,000	Virginian Railway First Mortgage 5 per cent Bonds, due May 1, 1962. Price 96 to yield 5 1/4 per cent.
\$10,000,000	State of North Carolina 4 1/2 per cent Highway Bonds, due January 1, 1934 to 1963—prices 101.16 to 102.79—yield 4.35 per cent.

As the market for home issues advances, increasing interest is manifested in the foreign Dollar bonds which yield relatively attractive rates. We give below a list of some of these with latest quotations and yield:

	Price	Yield
Kingdom of Netherlands 6s, 1954.....	98 1/2	6.10%
City of Rotterdam 6s, 1964.....	98	6.13%
Czechoslovak Republic 8s, 1952.....	97	8.27%
Japanese Government 6 1/2s, 1954.....	93 1/2	7.10%
Swiss Government 5 1/2s, 1946.....	96 1/2	5.77%
Republic of Finland 6s, 1945.....	91 1/2	6.76%
Austrian Government Gtd. 7s, 1943.....	94 1/2	7.58%
Oriental Development 6s, 1953	86	7.15%
Republic of Haiti 6s, 1952.....	92	6% %
Republic of France 8s, 1945.....	102 1/2	7.75%
Kingdom of Denmark 6s, 1942	98 1/2	6.18%
Kingdom of Norway 6s, 1943.....	99 1/2	6.04%
P. L. M. Railway 6s, 1958.....	78 1/2	7.78%
Department of the Seine 7s, 1942.....	90 1/2	8.05%

Politics and Business

There would seem to be no logical reason why the choice of a President, a lower house of Congress and one-third of the upper house should disturb the regular business of the country. The government has been functioning under the Constitution over a period of about 140 years. The country has prospered greatly in that time and the benefits of prosperity have been so widely and constantly distributed as to demonstrate that the general system of free enterprise and industry under which it has been working produces good results for all. The examples afforded in every community of the rise of individuals from obscure beginnings to high and responsible positions in business and community life is proof that equality of opportunity exists in a very substantial degree. There is evidence in abundance that although there are inequalities in individual holdings of property, the increase of wealth, wherever owned, is beneficial to all classes. In other words, the aggregate of private wealth cannot increase without general benefits resulting therefrom. It is sound public policy therefore to encourage in all the people the natural instinct for the production and accumulation of wealth, and to maintain the incentives to personal effort that have been so influential for industrial and social progress in the past.

Prosperity the Fruit of Private Efforts

Most of the questions that are referred to in political speeches and conventions relate to industry and business, and there appears to be no reason for any radical departure upon these matters from the public policies of this country as maintained heretofore. While it would be too much to say that there is nothing that the government can do to promote the prosperity and welfare of the country, two general propositions may be safely stated: First, that the government has much greater power to injure the country through bad legislation affecting industry and business than to benefit it through legislation touching those subjects, and, second, that there are greater opportunities to benefit the country by repealing laws now on the statute books, thus correcting past mistakes, than by passing new laws. Industry and business have little to gain from legislation. Prosperity comes by the free and voluntary activities of individuals in industry, and the government can do little beyond facilitating these activities. It has no creative powers except as it draws on the individual powers of its citizens, and the latter are able to organize and direct their own efforts much more effectively than the government can do it. If anything has been demonstrated by experience it is that governments are not successful in the management and direction of business affairs.

Business Desires Stability

Politics, however, is an inevitable factor in the national life. There must be government, and to have it there must be elections and along with elections rival parties and candidates, and all the strife, recrimination and competitive promises that characterize our campaigns. It is these conditions that tend to make politics disturbing to business. Business desires stability and natural progress by growth and development. It looks for improvement in social conditions by research, invention, industry, savings, accumulations of wealth which increase the productive powers of the population, realizing that every gain along these lines quickly disseminates benefits throughout all groups and classes. Its faith and policies are based upon the proposition laid down by General Francis A. Walker, one of the most sane and eminent economists this country ever has produced, to-wit: that under the existing competitive system the common man is the residuary legatee of all the achievements of industry and science.

The political program, however, is inevitably different. It is based not so much upon growth or development, as upon change. The program of the business world would afford scant opportunity for political and governmental activities. It would afford small scope for political

speeches or campaign promises. How could the "outs" ever oust the "ins" by simply preaching industry and evolution? How could an ambitious individual ever make a public career if there was not somebody or something to be immediately overturned? Politics is naturally dynamic. It must promise to do something forthwith. It works by artificial means. There is constant criticism of existing conditions and the temptation to competitive promises, the most appealing of which are promises of benefits by changing the flow of wealth in some manner—redistribution, taxation, restraint or seizure—by interfering in some way with the natural trend or development of affairs.

There is never-ending pressure for new activities by the government in the field of business, and political conventions, which meet under conditions highly unfavorable to deliberative action, virtually commit the law-making bodies to policies which should not be entered upon without the most careful consideration.

The Growth of Radicalism

This characteristic of politics has become more marked in recent years, as the old questions relating to the form of government, who shall participate in it, etc., have been gradually settled. The questions uppermost in politics now are more directly related to business than in the past. They are more immediately vital. They require for correct settlement a knowledge of economic principles and of past experience. Furthermore, they require in the body of the people certain qualities of character which are not generally highly developed, such as stability, toleration, mutual confidence, the spirit of cooperation, impartiality as between one's own interests and the interests of others, self-restraint, and resolution to forego pleasure in the present for the sake of remote benefits. The progress of society is dependent upon these qualities, and unfortunately our political campaigns are not calculated to develop them. Rather, they tend to excite suspicions, provoke antagonisms, disrupt essential relationships and prevent that harmonious cooperation which the business community finds to be necessary to general prosperity.

Misrepresentation concerning common economic facts and conditions is upon an alarming scale, for there is danger that the mere repetition of falsehoods will eventually cause them to be accepted without examination. Specific denial, refutation or exposure is overwhelmed by the volume of general denunciation and clamor. Attacks upon rival political leaders or parties are of minor concern, but they become more serious when directed mainly against the business organization of the country and the existing order of society.

The talk about a "predatory class," "privileged class," "governing class," the "exactions of wealth," "downtrodden masses," "oppressed millions," "organized wealth," "Wall Street domination," etc., appears more or less in speeches on all sides, and certainly from many persons who should know better than to utter such nonsense, and that is the most disquieting thing about it. It is the constant wash of this torrent that threatens to undermine the very foundations of society. The social organization has become so complex that not many can be familiar with the functions of all its parts, and this fact exposes it to misrepresentation. Of necessity it rests largely upon mutual confidence, and the persistent and reckless repetition of inflammatory appeals has come to be the outstanding feature of our political campaigns.

The Federal Reserve System

It is evident that the Federal Reserve system will be one of the objects of this kind of attack in the coming campaign. The Reserve system is an embodiment of the lessons taught by the experience of the world in banking and monetary science. The principles upon which it is organized are accepted by students of the subject in all countries. They were set forth in the Aldrich report, upon which both of the leading political parties were represented, adopted in the Federal Reserve act, put into force by a Democratic administration and continued by a Republican administration, but the radical wings of both these parties join with the radicals of all out-of-doors in attacking the system. The administration of the system has been represented as deliberately planning to force a deflation of values, and with particularly malevolent purposes toward the farmers. The charge is so unreasonable that it ought to be rejected on that account alone, but the records of the system disprove it. The reserve banks did not have it in their power to supply all the credit called for, or to sustain prices in this country in the face of a world-wide decline. A Congressional inquiry has exposed the falsity of these charges and left them without a shred of support, but the outpouring of falsehood has not slackened.

One reason for this persistence is that the radical attack has always centered upon the "money power." The idea that the bankers control the money supply and use it as a means of exploitation and oppression has been its main weapon in the past, but the old stuff about the iniquity of the gold standard and the simple virtues of fiat money has become unavailable in view of the efforts of all Europe, including Soviet Russia, to get back to the gold standard after a surfeit of cheap money. Hence the Federal Reserve system must be

linked up with Wall Street and the "money power" in place of the gold standard.

The Railroads

The railroads will share with the Federal Reserve system the specific attacks of the radical element. It is openly avowed that the object of the crusade is government ownership. The railroads in 1923, by far the best year they have had since the war, paid out approximately 85 per cent of their gross earnings for operating expenses and taxes. If their charges had been adjusted solely with a view to covering these necessary outlays, with no margin of safety and no compensation for invested capital, they could not have been reduced more than 15 per cent on the average, and it is not too much to say, on the strength of experience with governmental management, that the economy secured through private management saves fully 15 per cent of operating costs, as compared with what they would be under government management.

The holders of the great body of railroad bonds issued before the war of course are receiving no greater returns on their investments than then, and this is true of most of the railroad stocks, and these returns are worth very much less in purchasing power than in pre-war years.

Railroad labor receives approximately one hundred per cent higher wages than before the war, with a shorter work-day, and even farm products on the average as computed by the Bureau of Labor are 37 per cent higher than in 1913. A fair consideration of these facts will convince an open-minded person that railroad investors instead of being in a preferred position are in a disadvantageous position.

The main attack upon the railroads is directed at the provision of the Esch-Cummins law which directs the Interstate Commerce Commission to adjust freight and passenger charges with a view to producing a "fair return" upon the actual value of railroad property employed in transportation. This is strangely represented as making railroad property a favored class of property, and reiteration has been successful in impressing many people with this belief.

No Guaranty of Earnings

The misunderstanding arises from a belief that the government has given a general guaranty of a fixed return upon railroad property. It has not done this. The net earnings of railroad companies afford the best proof that this has not been done. The prices at which many railroad stocks and securities are selling show conclusively that it has not been done.

It is a familiar fact that the railroads never asked to have their charges regulated by law. Government rate-making was established as a restraint and limitation upon the railroads. The Congress, however, having taken the power of rate-making out of hands of the railroad companies has assumed a certain responsibility to the investors in railroads. It is under an obligation not to confiscate their property or deprive them of the right to reasonable returns, providing their properties are able to earn them.

The intent of government regulation is to assure fair terms to the public and fair terms to the property-owners, and a government commission is charged with naming these terms. It is not a question of guaranty, but of the degree of restraint which the government board shall enforce. The Board does not say that every railroad shall have $5\frac{3}{4}$ per cent upon the value of its property, but that all the railroads taken together as a transportation system, will be permitted to earn in the aggregate $5\frac{3}{4}$ per cent annually upon the value of all the property used in transportation, *if they can*.

If a government commission was limiting the prices of all farm products, and in view of complaints of agricultural distress, the Congress should instruct the commission to *permit* the farmers to earn, if they could, in the aggregate, a sum equal to a given percentage of the aggregate value of all farm property, the case would be similar to that of the railroads. In that case, however, the land valuation would not be on the basis of recent market prices, but what the lands cost many years ago, and there would have to be the additional proviso that if any individual farmer earned more than his share of such aggregate, one-half of the excess should be paid into the treasury of the United States. Would this be a guaranteed return that any one would crave in preference to free industry?

The Companies Fail to Earn the Fair Return

The railroads have failed in each year, under the rates they have been permitted to charge, to make the aggregate earnings which the Commission has named as a fair return. Some of the companies have earned more than their percentage, but a greater number have failed to earn the percentage. The point is that they have no guaranty. The Commission estimated that a certain scale of charges would produce in the aggregate the sum named, but even if it had produced a sum equal to $5\frac{3}{4}$ per cent on the aggregate valuation, some of the roads would have earned more than $5\frac{3}{4}$ per cent and some less. The ones receiving more than that percentage are required to pay one-half the excess into the public treasury, while those receiving less than $5\frac{3}{4}$ per cent

simply have to accept the situation. They had permission to make it but failed. This is not a guaranteed return. It is a *permitted* return, which must be hustled for and earned.

The permitted return, $5\frac{3}{4}$ per cent, is not based upon "watered" stock. It is not based upon the amount of stocks or securities issued, but upon the actual value of the property as calculated by the Interstate Commerce Commission, under the terms of the valuation act, the author of which is Senator La Follette, of Wisconsin.

This rate of return cannot be said to be a high one, in view of the fact that upon all the old properties it is based upon pre-war costs, and the further fact that it is but slightly higher than rates current for loans upon mortgage security. The last issue of Federal Land Bank bonds was at $4\frac{3}{4}$ per cent, and these bonds and the income from them are exempt from Federal, state and local taxation. It cannot be expected that capital will go into railroad investments unless they pay fairly comparable rates.

The railroad companies have expended very large sums in the past year for additional equipment and improvements, and the service generally has been efficient. The capital so invested has been borrowed in the public markets, much of it at rates of interest as high as the rate of return which the roads are permitted to earn, and these loans of course establish claims upon the earnings which rank ahead of all returns to the owners upon their stock. The companies cannot go on indefinitely raising the new capital for improvements by borrowing. A considerable share of the new capital must be in the form of proprietor's capital, i. e., capital stock, or the credit of the companies will decline.

The public must deal fairly with the railroads if they are to be maintained by investments of private capital. These are the fundamental facts of the railroad situation, and in the general interest they require to be dealt with on business principles.

The campaign of 1924 should be made an educational campaign upon economic questions, as the campaign of 1896 was one upon the money question, and the business men of the country should take an interest in it as they did in 1896. And when it comes to a discussion of government ownership of railroads the best material to be had for a campaign document is the audit of the operations of the North Dakota state-owned flouring mill, a summary of which appears in this issue.

Margins of Profit

There is a never-ending discussion of profits, particularly of the profits of manufacturers, middlemen and all who perform the variety of

services which are required in converting crude materials into goods ready for use and in conveying them from where they are produced to where they are consumed. This discussion is revived and pressed continually by persons who believe that profits are unreasonably large and who as a rule have little practical knowledge of business conditions or of the irrepressible competitive forces which regulate profits. Undoubtedly there is a great amount of misinformation afloat upon the subject, and it is responsible for much irritation, honest indignation and social friction.

In 1921-22 a very extensive investigation was carried on under the auspices of the Joint Congressional Commission of Agricultural Inquiry, which was composed of six members of the Senate and six members of the House of Representatives. The membership was mainly from agricultural districts, and the inquiry was very broad in scope, from a close examination into the so-called "deflation policy" of the reserve banks to tracing the cost of moving and distributing farm products from producers to consumers. This investigation involved much labor on the part of several members of the Commission, and particularly by the Chairman, the Hon. Sydney Anderson, of Minnesota, and required a considerable expenditure of public funds. In the opinion of most persons who have examined the report of four volumes the work was capably and conscientiously done, and should carry some authority, but whether it does or not is hard to say. The people who read it and accept its findings generally say little about it, while those who like to think or talk otherwise go on doing so.

The report afforded no support to the idea that the Federal Reserve banks had adopted a policy of forced deflation or had discriminated against agriculture; consequently its comments upon that subject have obtained little publicity. It found no exorbitant profits anywhere in the movement of farm products from producers to consumers, although it expressed the opinion that the organization might be simplified in some respects and costs reduced; but as it did not find anybody guilty of heinous offense, the demands for congressional investigations upon the subject remain unabated.

"The Bread Tribute"

The latest outburst on the subject is from one Basil H. Manly, "Director of People's Legislative Service" which Service seems to be a self-chosen organization for supervising the activities of the regularly elected Congress of the United States. The character of the report may be judged from the following extract:

If any government should levy taxes as oppressive as private industry now imposes on the bread of the American people, revolution would be inevitable.

Only a few figures are necessary to present a clear picture of the general situation. The pre-war year

1913 may be taken as a standard. In that year wheat on the farm sold for an average price of 79.4 cents per bushel, while flour at retail brought 3.3 cents per pound, and bread, 5.6 cents per pound, retail. This year, in November, the last month for which complete figures are available, wheat sold for 92.3 cents per bushel on the farm, while flour at retail brought 4.6 cents, and bread 8.7 cents per pound, retail. That is, in ten years, since 1913, wheat has advanced in price 16 per cent, flour 39 per cent, and bread 55 per cent. The price of flour has, therefore, increased more than twice as much as wheat and the price of bread more than three times as much.

The charge of profiteering is based upon the assumption that nothing entering into the cost of bread has increased more than the cost of wheat. The report makes two recommendations calling for action by the United States Senate, as follows:

1. A Senate resolution directing the Secretary of the Treasury to report the profits of all baking and milling corporations, as disclosed by their tax returns from 1918 to date.

2. A thorough and searching investigation by the appropriate Senate committee of the tribute levied by wheat speculators, grain elevators, railroads, millers, jobbers, bakers, and retailers from the time the wheat leaves the farm until it reaches the dinner table in the form of bread. The committee should be empowered to employ counsel and compel the production of books and papers so that all the unethical and illegal methods by which the price of bread is enhanced may be disclosed.

Investigations of this kind have been going on continuously for years. The Department of Agriculture has conducted several extensive inquiries into the movement of wheat from local to central and foreign markets, and last year investigated and analyzed the cost of bread as sold in seven cities, to wit, New York, Boston, Chicago, Minneapolis, Kansas City, New Orleans and San Francisco. The Federal Trade Commission has investigated the milling business and the grain exchanges, issuing a lengthy report on the grain trade last year. The monumental report of the Joint Commission of Agricultural Inquiry came out only last year. Nevertheless the Senate adopted a resolution offered by Senator La Follette, directing the Federal Trade Commission to proceed with another investigation the scope being defined in almost the identical language of Director Manly's recommendation. The undertaking, however, seems to be blocked for the present by a response from the Federal Trade Commission that it already has more investigations cut out for the future than it has the force or funds to carry through.

Meanwhile, however, the public is not without information upon this subject from other sources.

The Price of Bread in Seven Cities

The United States Department of Agriculture published in February last a preliminary report giving the main results of an investigation conducted under the direction of A. V. Swarthout, in charge of the Cost of Marketing

Division of the Bureau of Economics of that Department, into the retail prices of a one-pound loaf of bread in seven cities, to wit, New York, Boston, Chicago, Minneapolis, Kansas City, New Orleans and San Francisco. It shows a price range at the time of the inquiry, which was from October, 1922, to March, 1923, of from 7.68 cents in New Orleans to 9.73 in New York, and the shares of the retail price obtained by each agency contributing to the service. The introductory statement says that the primary purpose was to ascertain the portion of the retail price of bread which accrued to the grower who produced wheat during the 1922 crop season, and the first comment is upon the revelation that "the value of the flour in the producer's wheat is entirely submerged in the service cost of getting it to the ultimate consumer."

There are variations in all the factors in the different cities, explained by local differences in service and in quality, as well as in wages and other costs of doing business. The analysis of the New York retail price, moving backward from the retailer to the wheat-grower, shows the distribution as follows:

	Cents per pound	Percentage of Retail Price
Retailer	1.49	15.39
Baker	5.62	57.74
Freight on flour	.15	1.55
Miller	.53	5.47
Freight on wheat from local station	.37	3.76
Elevator charges	.07	.74
Farmer	1.50	15.35
Retail selling price	9.73	100.00

In view of the emphasis placed upon the relation between the price of wheat and the price of bread, it is interesting to note that the original cost of wheat is only 15.35 per cent of the cost of bread at retail in New York City. This percentage is lowest at New York, ranging up to 18.56 per cent at New Orleans, but how little this percentage really signifies appears from the fact that the actual cost of the wheat in a loaf is only 1.43 cents in New Orleans against 1.50 in New York. Baking and retailing get 5.23 cents in New Orleans against 7.11 in New York.

"Margin" Is Not the Same as "Profit"

The shares of the retail price going to the several recipients as shown above are their gross receipts, out of which they must pay their expenses. Thus in the case of the baker the report says that it covers operating expenses and cost of other baking ingredients than flour.

The report goes into an explanation of the retailer's share, at greater length, as follows:

The publications of the Harvard Bureau of Business Research and other similar agencies indicate that the margin for retail groceries in 1922 averaged approximately 19 per cent. This margin, inasmuch

as it is computed from the accounting records, would tend to be slightly smaller than the margin which we have computed on the basis of price differentials. In the cities under consideration in our study, therefore, the retail margin on bread was slightly less than the average margin (on all commodities sold) received by a large number of retail groceries.

It might be argued that on account of the relatively high turnover or for other reasons, the retailer might fairly reduce the margin on bread. There are, however, some very real and practical difficulties in the path of such plan. It is impracticable to sell single loaves at a price other than even cents. Were consumers generally willing to buy more than a single loaf at a time, this fractional cent price might be made effective by offering two loaves for, say, 17 cents. But this has rarely worked out satisfactorily in practice, consumer's preference being for fresh bread, probably baked daily, and purchased one loaf at a time. Hence, it would be necessary to reduce the selling price and consequently the margin, a full cent, if any material benefit were to be received by consumers.

If the retailers in Minneapolis were to reduce their margin by one cent their present margin of 16.67 per cent would be reduced to one of 6.2 per cent. Whether this margin might cover the cost of services rendered is a question which can not be discussed intelligently without very careful study of the retailer's costs and turnover. Certainly this margin is much below the average cost of doing business, (18 per cent), as given in the most reliable statistics available on the subject.

This margin should not be confused with profit, as it includes an allowance to cover the retailer's cost of doing business and any measure of profit which he may finally receive. His expenses are incurred in rendering services to the consumer and these entail the use of salesmen, labor, store building, and equipment, delivery equipment, the extension of credit, and other similar items. The expenditures occasioned by these services must be defrayed, if possible, out of the sum total of the retailer's margins on all commodities handled and he can realize a profit only after these disbursements have been made.

The report goes on to explain its method of calculation still further by saying of the farmer's share, or "margin":

In producing wheat, the producer incurs certain expenses of production such as rent of land, interest on investment, taxes on land, hire of labor, maintenance of equipment, and all of the many other items which go into the farming operations. The margin realized must cover their proportionate share of this expense, if the farming operations are not to result in a loss. Any profit which may accrue must be secured through keeping the proportionate share of the expenses below the realized margin.

Milling Profits

In view of the fact that there are several thousand flouring mills over the country, and that milling capacity in the aggregate largely exceeds the production of flour, no person of business experience would be likely to require proof that prices for flour are made under competitive conditions. It is not too much to say that no combination giving effective control over the prices of flour would be possible with the existing multiplicity of ownership, even if there was no fear of government prosecution, which is a very real factor in the business situation.

As it happens, evidence which cannot possibly be questioned is available as to the small margins upon which the flour-milling business is operating. The State of North Dakota is in

the milling business and the results of its operations have to be reported to the state officials and made known to the people of the state. They are public business. The adventure of North Dakota in the milling business is quite a long story, with the main features of which the country is familiar. The wheat crop has been the principal crop of the State, and the farmers came to believe that the profits of the Minneapolis elevator and milling companies upon North Dakota wheat were very large. That belief led to the organization and elevation to power of the Non-Partisan League, and under its administration the State was launched into the milling business. State bonds were issued in the sum of \$3,000,000 for the construction of a mill and elevator at Grand Forks, and the enterprise was well under way when as the result of general dissatisfaction with League domination the people of the State turned out the League administration. The milling enterprise was so far advanced that the incoming administration, headed by Governor Nestos, considered that the only thing to do was to complete the structures and carry through the experiment, making a fair trial of what could be done with a state-owned property of this kind.

North Dakota State Milling Operations

The mill and elevator with equipment and all appurtenances cost about \$3,000,000, and there is agreement that it is a complete and modern plant, probably as efficient as the best in the country, with a now demonstrated capacity of more than 3,000 barrels of flour per

day. Bonds were issued for another \$1,000,000 to supply operating capital, so that the State's investment is approximately \$4,000,000, represented by interest-bearing indebtedness.

The mill began operations October 23, 1922. It was a new enterprise, with the task of establishing its product in the markets. Business men will not be disposed to judge the management harshly upon the results of the first year or two, but if the profits of the milling business were anything like as large as had been represented in North Dakota, or as represented by the People's League of Legislative Service, there was a good margin to go on.

Two audits of the mill accounts have been made since the commencement of operations, the first from October 23, 1922, to July 31, 1923, and the second from the latter date to December 31, 1923. During the first period the mill naturally was not run to capacity, as it was being "tuned up", and stoppages were necessary. The sales of product in this period aggregated \$1,554,829.93 and there was a net operating loss of \$128,058.53, equivalent to 48 cents per barrel. In the second period, the mill made a fine record for production, and succeeded in turning the operating loss into an apparent operating profit of \$49,633.06, equivalent to 10½ cents per barrel, but neither interest on the investment nor the usual reserves for depreciation, etc., are included in these figures.

The following condensed table showing results of the two audits is taken from the latest report:

STATE MILL & ELEVATOR, GRAND FORKS, N. D. Comparative Condensed Form, Operating Statement

	Oct. 23, 1922 to July 31, 1923	August 1, 1923 to Dec. 31, 1923
	Cost per barrel	Cost per barrel
Sales	\$1,554,829.93	\$3,257,349.21
Less delivery expense	160,481.64	346,958.98
Net sales	\$1,394,348.29	\$2,910,390.23
Plus increase, inventories	113,002.60	181,438.99
	\$1,507,350.89	\$3,091,829.22
Material cost	\$4.778	\$1,273,818.28
Cost of packages used .....	.373	.388
Operating expense .....	.524	139,631.33
Total—Material, packages and operating.....	\$5,670	\$1,513,105.04
Milling loss .....	.022	\$5,754.15
Milling gain .....		.480
Selling expense .....	.331	.378
General expense .....	.127	.098
Net operating loss .....	.480	128,058.53
Net operating gain .....		.105
Addition to income		49,633.06
Deductions from income		
Net loss		95,652.03

The following explanatory comments are made by the auditor:

During the period covered by this report, the mill operated about 95 per cent time. On the basis of 3,000 barrels per day, it exceeded capacity output. On the basis of full time, however, (on page 50 will be found summary of flour produced), the records show that for the month of December the mill turned out 100,841 barrels of flour and Semolina in 30 days, or an average of 3,360 barrels per day.

• • • • •

A comparison of the two statements will show that the net operating loss of 48 cents per barrel prior to August 1st has been changed to a profit of 10 cents per barrel for the period after August 1st, or a gain in profits of 58 cents per barrel.

While the milling profits show a substantial gain during the five months covered by this examination, it has not been sufficient to carry the reserves and interest charges on capital. After making all deductions for the period, a net loss of \$95,652.03 is shown and carried to the Balance Sheet. Interest on funds borrowed for operating has been paid to December 31st and charged in operating expense. In checking the interest on mill and elevator bonds, I find the following condition on December 31, 1923:

Interest due State Treasurer on \$3,000,000.	
Construction bonds to December 31,	
1923	\$233,152.07
Interest taken in by Bishop-	
Brissman report prior to	
August 1, 1923	\$86,258.06
Interest Aug. 1 to Dec. 31, 1923	71,666.66
Interest not previously account-	
ed for	75,227.35
	\$233,152.07
	\$233,152.07

This indicates an interest liability to the State Treasurer not shown by the records of the mill and elevator in the amount of \$75,227.35.

These figures show a total loss, including interest on capital, of \$311,577.54, to December 31, 1923, but as bearing on current profits from milling operations the figures of the second period are the more important, as they show the results of a fine, modern milling property, operating at capacity, under a management regarded in milling circles as competent. It may be said that the enterprise is new and has the reputation of its brands yet to establish, but the fact that it is owned and operated by the State of North Dakota should give something of a guaranty of the quality of the products and be of some value in introducing them to the public. Certainly if the milling business generally was making inordinate profits, this splendid property would be able to earn the ordinary bond interest on its cost.

A Miller's Statement of Conditions

In connection with the above, we give the following extract from a private letter by the president of a prominent milling company of the Middle West, written to this Bank, with which the company has regular business relations:

The milling industry has especially suffered from the continued effects of the political conditions in Europe, just as wheat prices reflect this condition to the American farmer. In the milling industry, it may interest you to know, it is estimated that the daily capacity is in excess of 1,100,000 barrels of flour. In 1914 the daily capacity was about 800,000

barrels of flour. It is evident from the above that our yearly home requirements could be filled by American mills on full time operation in the short period of some one hundred and twenty days, so that domestically it is very much of a buyers market, and until our export outlets are increased, we are frank in saying that the good wishes you extended to us is more than we expect for the next few years, and as long as we can keep our liquid condition intact, keep our plants up, and do what we have done during the past year, we ought to be more or less satisfied.

Profits of Baking

We have not at hand any analysis by an official authority of the baker's share in the cost of a pound of bread, but there are some good reasons for believing that competition is regulating prices and profits in this business with about the same results as in milling and business generally. According to the census of 1921 there were in the United States 23,625 establishments doing a commercial bakery business. The proprietors and firm members numbered 22,922 persons. It is safe to say without any other information that there is no baking trust controlling the business. And, finally, the sharpest competitor of the commercial baker is the family housekeeper, whom he is constantly trying to persuade to abandon the baking part of her activities.

The "Northwestern Miller," of Minneapolis, in a recent article upon this subject makes the point from census returns that in 1921 the item of wages alone aggregated \$196,938,-825, or an average of \$1,326 for each employee, whereas in 1914 the average yearly wage for each employee was \$620, or an increase in direct labor cost of over 100 per cent.

The American Institute of Baking, an organization maintained by the American Bakers' Association for research and educational purposes, has compiled figures recently showing that the cost of flour used by a large number of bakeries of different sizes constitutes only 39 per cent of the total cost of manufacturing and baking bread, with no allowance for profit. The Institute says that instead of making between 5 and 6 cents of average profit per pound, as some critics have stated, a correct subdivision of the baker's margin would show less than .6 of 1 cent profit and the remaining 5 cents divided between raw materials and cost of production.

The Margin in Wholesale Groceries

While the wholesale grocery business has little to do with the cost of bread, it is an important factor in the distribution of other food-stuffs, and an authentic statement of its costs and profits is of interest in this connection. The Harvard Bureau of Business Research, which is conducted in connection with the Harvard Graduate School of Business, has been for several years making a study of costs and profits in the wholesale and retail grocery trades. Its report for 1923 says, in part:

The bureau received reports from a larger number of firms this year than in any year since this work was undertaken, and in the preparation of the final summary on the cost of doing business in 1923 we have been able to include reports from 501 firms. This compares with 442 usable reports for 1922 and 344 for 1921.

The aggregate volume of sales of the firms whose figures were included in our tabulations amounted to \$677,709,000. With this volume of business and 501 firms represented, it is certain that we have a fairly representative cross section picture of the cost of doing business in the wholesale grocery trade in the United States.

The common figures for operating expenses in 1923 for the 501 firms whose reports were used in preparing this summary indicate the average cost of doing business in 1923 was 10.6 per cent of net sales, the average gross margin 11.3 per cent and the average net profit 0.7 per cent; the average rate of stock turn was 5.9 times in 1923.

The Retail Grocery Business

A report of the results of the inquiry of the Harvard Bureau into costs and profits in the retail grocery business in 1923 was given by Professor Charles D. La Follette, at the annual convention of the National Retail Grocers' Association last month. It was based on the operations of 471 retail stores, and was summarized by the speaker as follows:

In the typical retail grocery store, each time a dollar's worth of merchandise was sold at retail the expenses of store operation claimed on the average 17.3c, and the proprietor realized a net profit of 1.8c. Such a typical retail grocery store had net sales amounting to \$65,000, of which \$52,588 was required to pay for the merchandise sold; \$11,245 for salary, and \$1,170 remained as net profit. During the year this typical retail grocery store turned its stock slightly over ten times, so that the average stock of merchandise on its shelves at any one time was approximately one-tenth of the total cost value of all merchandise sold during the year.

The following interesting statement concerning the retail grocery business in one large city appeared about a year ago in the "Northwestern Miller," as a communication from a Los Angeles correspondent. The year's statistics given were for 1922:

The city of Los Angeles is served with 1880 retail grocery stores, the largest number in its history, and an increase of 192 during the past year. "Turnover" among grocery stores during the last year has been high. In fact, of the 1,688 grocers in the city a year ago, less than 950 are still in business. This means that about 750 groceries have discontinued or changed ownership during the year. From a flour miller's standpoint it is of special interest to note that many of the stores which were checked a year ago as having weathered the unsettled period prior to that time are prominent among those still in business. In other words, a substantial proportion of the trade seems to remain fairly stable, year after year, while others are making continual changes. There are seven large chain grocery stores in Los Angeles, the largest of which operates 60 stores in this city.

Meat Distribution

The Bureau of Economics, Department of Agriculture, has recently given out figures upon the margin and profits of retail meat dealers which are pertinent in connection with the discussion of retail profits generally.

The report is prepared from material collected jointly by the Bureau of Agricultural

Economics and the Bureau of Business Research of Northwestern University. The preliminary statement says.

This report is built on data collected from 143 stores located in Chicago, Cleveland and New York, covering the period of one year from the first of March, 1923, to the same date 1924. The figures presented here represented the expense of retailing meats in metropolitan districts. All figures were taken from periodic reports based on a standardized system of bookkeeping which was installed and supervised by accountants employed in the interests of this study. There were practically no differences in costs between the three cities except those due to differences in the sizes of the stores which were making reports. If any small differences in cost among cities existed they were concealed by the greater influence of differences in volume of sales of the stores which reported.

The summarized result is that the average successful retail meat dealer in these cities out of each dollar received from sales pays 76 cents for the goods sold, 19 cents for the expenses of conducting his business and realizes 5 cents profit. The 19 cents representing costs of doing business include 13 cents for wages of employees and salary for proprietor based on what he would have to pay an outsider to do the same work and the remainder is for other expenses.

Some of the most significant paragraphs of the report are given below:

The cost of goods sold and total sales determine the amount of money which the proprietor keeps to pay expenses and to give him a profit if there be one. This difference is referred to in this report as the "Margin."

The most common margins for retailing meat are from 22 to 27 per cent of sales. Margin varies somewhat with the size of store; the larger the sales, the lower the margin percentage.

The largest stores reporting, which include stores grouped as having four men or more, had a margin averaging from 21 to 23 per cent of sales. This low figure was possible because these stores approach maximum labor efficiency and their rent expense percentage is low for it is distributed over a large volume of sales.

Three-men stores had margins averaging about one per cent larger, ranging from 22 to 24 per cent of sales.

Two-men stores, the most common size, had margins usually about 23 to 26 per cent of sales.

One-man shops operated on margins from 24 to 26 per cent of sales. There were a few cases of shops too small for one man. These were trying to make money by forcing the margin up over 28 per cent, but in general, stores cannot secure trade in sufficient volume if prices are so high.

Out of 143 stores which reported from the three cities, 42 showed a loss for the period reported and 101 made a profit. This means that two out of every seven stores were not successful. If the owners had sold their shops and gone to work for someone else as meat cutters, they would have increased their yearly income. That there is a large percentage of meat dealers operating at a loss has been shown in other studies of the retail trade when rather similar proportions have shown a loss.

In a great number of these 42 cases the owners previously kept no records and did not know that their operations were not paying them.

Profits among stores varied from practically nothing to over 10 per cent of sales for some of the most successful shops. Five per cent was the average figure for profits. The fact that some dealers are able to make a profit of 10 cents on each dollar of sales while other dealers make nothing and even lose money, shows clearly that the ability of dealers as well as competitive conditions varies greatly.

This fact is enough to make anyone who is thinking about opening a shop, consider his chances very carefully. He stands almost one chance in three of losing money, but on the other hand, judging by the experience of others, he has a chance to make a very nice profit. This amount may be even as high as 10 per cent if he is able to run his store economically and has the advantage of a desirable location.

This brief account of the conditions under which profits are made in the retail meat business, illustrates the conditions in all business. It shows the error of assuming that the profits of a prosperous business arise from unreasonable charges. On the contrary they are as a rule significant of good management by which the public is more economically and satisfactorily served than in the case of competing establishments which make smaller profits. The foregoing statement shows how the opportunity to gain profits induces efforts for the improvement of business methods, and tends gradually to eliminate incompetent managers, to the advantage of the public. This is the service of the competitive system. If this single fact as to the origin of profits, and this economic law regulating profits were generally comprehended, about nine-tenths of the loose criticism of the existing economic order would disappear.

An abundance of evidence is available as to the margin upon which the meat-packing business operates. The Bureau of the Census recently has published figures showing that the packer pays out for his raw material, principally live stock, about 85 per cent. of the selling value of his products, leaving to him about 15 cents out of every dollar of his gross receipts to cover all operating expenses, including wages, taxes, interest charges, depreciation, etc., including manufacturer's profit. This result is accomplished by a wonderful utilization of by-products which form-

The average profit realized by the four largest packing companies, to wit, Armour (including Morris), Swift, Wilson and Cudahy, in 1923, was 1.56 cents on each dollar of sales.

Relative Importance of Services

No doubt it is natural to assume that the principal item in the cost of bread is the cost of wheat, and probably that was the case when the house-wives made the bread and their services were not counted in the cost. In New York City, baking and distribution take 7.11 cents of the 9.73 cents which a loaf costs, the farmer gets 1.5 cents and all charges from the farmer's railroad station to New York, including the manufacture of flour and cost of containers, aggregate 1.2 cents. Considering the distance from the wheat-fields to New York, and the number of handlings, as well as the conversion into flour, this part of the service does not seem excessive, although it has increased since 1914, owing to

higher labor costs of operating railroads, elevators and mills.

It may be natural also to think that the service rendered in producing the wheat is more important and for this reason worth more than the other services rendered in finally producing a loaf of bread at the consumer's door, but the distinction is not a practical one. The consumer pays for a completed service, which many co-operate in rendering. Who is to say what is the relative amount of skill or labor or discomfort involved in the several services, or the relative value to the consumer?

In these days wherever routine production is largely by machinery, primary costs are low as compared with the cost of personal services, and this is the chief reason why retail distribution is a larger factor than formerly in the final prices of most commodities. Retail distribution is largely personal service.

These questions of relative compensation are not settled by mere argument among those who render the services. The consumer pays what he must for the services he requires and considers that there is no better criterion of their value than what they cost in a free market. The natural measure of value is the amount of human effort, human skill or human time required to render the service. It makes no difference to the consumer whether he is paying for the cultivation of potatoes, their transportation, storage, wastage, rents, delivery through crowded streets, or wages of the cook; the distribution is impersonal. In each case he is paying for a service which he does not want to perform for himself, or for his own freedom to do something else, which is worth the same to him in each case. He pays for the several services what the competition of the market says they are worth, that being the same basis upon which his own earnings are fixed.

Who Pays for the Services?

Why should it be assumed offhand that the services rendered in this city are over-paid, or that they are in any way charged back to the farmer, as is frequently implied? It is common to hear it said that of the retail price of a loaf of bread, or a pound of beef, or a bushel of potatoes, the farmer gets only a small percentage, but who pays the bill, and why does he pay so much to other people than the farmer? Evidently the consumer, not the farmer, pays it, and pays it as a condition of living in New York City.

It may be said that while the New York resident pays the bill, he charges it back upon the country for services rendered, but New York has no monopoly of any of the services which it renders to the country. Whatever business it does is done in competition with

Boston, Montreal, Philadelphia, Baltimore, Norfolk, New Orleans, Galveston and Houston, as ports, and with Chicago and all the other live and aggressive cities of the interior.

Does the high cost of making and distributing bread in New York have the effect of reducing the price of wheat in North Dakota, or, in other words, of reducing the actual amount going to the farmer from the retail price of a loaf? To put it still differently, do the high rents on Manhattan island reduce the price of wheat in the Dakotas? The comparative figures for different cities show that baking and distributing costs are lower in New Orleans than in New York, and that the farmer gets a higher percentage of the retail price of bread in New Orleans than of the retail price in New York, but this does not signify that he gets a higher price for the wheat consumed in New Orleans than for the wheat consumed in New York. In fact, he does not.

The Percentage Argument Fallacious

The percentage calculation is misleading as an argument to prove that the farmer does not get his share. If the cost of baking and distributing bread in New York City was reduced one-half, it is not certain that the price of wheat would be affected at all. The law of supply and demand would still govern it, and it would be affected only as consumption might be affected. Moreover, if the consumption of wheat was thus increased the consumption of other food probably would be decreased, for there is no reason to think that any considerable number of the population of New York City are now underfed. In the case of fruit and other perishable products, no doubt a reduction of distribution costs would materially increase consumption.

As the result of an exhaustive market survey made by the Massachusetts Division of Markets into the distributive costs of Maine potatoes, it was learned that 48 per cent. of the consumer's dollar spent for potatoes goes to the grower, 4 per cent. to the country dealer or shipper, 17 per cent. for freight charges, Maine to Boston, 5 per cent. to the wholesaler or carlot receiver, 5 per cent. to the jobber, and 21 per cent. to the retailer. From this it would appear that the farmer gets a larger share of the retail price of potatoes than of the price of bread, but this alone would not prove that potatoes are a more profitable crop than wheat.

There is another feature of the situation, however, which undoubtedly is entitled to consideration. Wages in all cities have been maintained at approximately the war time levels while the compensation of the farmer has fallen. This situation is compelling the farmer to pay more than formerly for all service rendered to him, but this is not the situation at which the People's Legislative Service is

directing its attack or at which agitation generally is directed. Nor does it have anything to do with the fundamental question of business organization and profits.

The Division of Costs

A practical question is, can any one suggest a better basis for the division of the cost of a loaf of bread than the present one? Anybody and everybody is free to engage in any of these services, from growing wheat to delivering bread where it is wanted. At least this is theoretically so, and if it is not actually so certainly it should be, and the laws of the land are intended to make it so.

Moreover, we have in the government report above mentioned, seven independent, unrelated, demonstrations, in widely separated cities, each of which represents the average of competitive individual efforts, and they show results very much alike. What does any offhand presumption count for as against these results? It costs less to get the services rendered in New Orleans than in New York, but the people who live in New York want them rendered here. The differences between the seven cities show that there is an independent adjudication of compensation in each case, but the results are enough alike to support each other.

The Test of Doing It

To this practical test the entire debate over the costs of distribution must come. A gentleman of eminence in the business world who is showing a commendable interest in this subject, has recently written an article in which he says that he has traced potatoes from the grower on Long Island, who received 60 cents per bushel for them, to retailers in New York who sold them at three pounds for 10 cents. These figures show the wide spread in prices, but what do they really signify unless we also know the cost of retailing potatoes on Manhattan island by the 10 cents worth?

Is there any better way of fixing the value of services than by learning what must be paid year after year to have them performed? There is no prejudice or favor in the ratings of the market-place. The field is open to everybody who wants to experiment in it. The individuals who write articles to prove that the charges are unduly high have a standing opportunity to demonstrate that they can be lowered. Moreover, experiments are being tried constantly.

Here is another quotation from the "Northwestern Miller," this time from its Chicago correspondent, and indicative of the ceaseless and persistent character of competition:

A common question heard in Chicago flour circles is "What will the chain store competition lead to?" Without a doubt these concerns are making inroads upon the business of flour handlers as well as bakers.

One of them, in last Sunday's newspapers, ran large advertisements offering its private brand of flour at seventy-nine cents per twenty-four and a half-pound sack, a sixteen-ounce loaf of milk bread at five cents, and a twenty-four-ounce loaf at eight cents. It also advertised that its annual flour sales exceed three hundred million pounds, and that during the previous week its bread sales had passed all previous records, totalling over seven hundred thousand pounds.

Flour dealers catering to the family trade in particular are feeling this competition, as they find it extremely difficult to meet the bargain prices being quoted by the chain store companies. Retail bakers whose shops are in the same neighborhood as these stores also are noticing a falling off in their bread sales. The smaller bakers are not in a position to compete with these prices, and many of them are also feeling the effects of the bargain sales of flour, which have attracted the housewives and made home baking more popular.

The Share of Big Business

One thing is certain: the high cost of bread, meat and other common necessities in the cities is in only very small degree due to the charges of what is called "big business,"—in other words, aggregations of capital. They are not the leading factors in baking or retail distribution, and to the extent that they are engaged in these services their influence has been to lower prices and improve service.

The largest employment of capital in the above-named services is in milling, wholesaling, transportation and meat-packing. The gross charge for each of these is seen to be relatively very small, and if the profits realized by capital in these sources were isolated they would be found to be insignificant.

Milk Distribution in England

That the situation as to distribution costs is much the same in other countries as here is indicated by the following clipping of a letter in the London Times:

The railway charges on milk, although usually paid by the farmer, are clearly a part of the cost of distribution. Accepting your Agricultural Correspondent's figures in "The Times" of May 12 as correct, the result would be that the average price to the farmer was 13½d., the cost of distribution 13¼d. I think that the public will agree that if this is the best distributing organizations can do, it is time the farmers themselves, or the Government, took the matter in hand in the interest of the public. Anomalies are numerous, but it is neither reasonable nor right that the man who gets up at 4 o'clock in the morning and usually does not finish till 6 in the evening, doing all the hard, dirty work in all weathers, should receive about 30s. a week, whereas the man who delivers milk on street pavements for a few hours should receive a Trade Board wage of 55s. and perquisites.—Mr. Lewis Hay, 165, Above Bar, Southampton.

Here is the same assumption that if the government, the farmers, or some other organization would take over distribution it would be done more cheaply. This writer makes a pertinent comparison of the pay of the farmer with the pay of a milk-driver, but there is slight reason for believing that the driver's pay would be reduced by governmental authority. Whether the farmers themselves could manage delivery more cheaply would be best determined by trying. The great

need is for somebody to come forward and demonstrate the better methods which are vaguely suggested.

The Interborough's Experiment

We described several years ago the effort of the Interborough Rapid Transit Company to supply its own employees with groceries at actual cost. It opened three large stores at convenient places on its lines, paid the rent and overhead charges out of the company's treasury and sold the merchandise to its employes at net cost. There was a rush of patronage for a few weeks, until the employes were able to measure the savings of this plan against the service and convenience of the local stores, and then sales at the company stores dwindled away until the company concluded that the experiment was a failure and dropped it. The report upon retail meat shops given above shows that certain economies are accomplished by increasing the volume of sales under given overhead charges, but are they large enough if divided with the public to induce a greater concentration of trading or pay for the consumer's extra trouble? Why doesn't the 4-man meat shop become an 8-man shop, or a 20-man shop, with corresponding economies? Simply because this involves drawing customers from a larger area and the possible economies are not sufficient to attract them. From the consumer's decision there is no appeal. If he wants personal service and is willing to pay for it, somebody will supply it.

Sound Business Policy

It is a great mistake to suppose that the business community is especially interested in increasing prices. The truth is just the opposite. The main object of study in every line of industry and trade is how to improve the methods and cheapen the costs of production and of distribution. Every large industry now has a research laboratory, with a staff of technical experts devoted to the study of the branch of science to which the industry is related, and every commercial business is studying the problems of distribution with a view to simplifying methods and cutting out unnecessary expenses. Furthermore, as soon as improved methods are demonstrated and generally adopted the benefits derived from them are passed on to the public. With all the improvements made in industry in the past twenty-five years it is safe to say that the average percentage of profit on the volume of business done is lower than at the beginning of that period.

Notwithstanding this obvious truth we have Government commissions gravely reporting to the public that coal dealers are engaged in passing coal from one to another in order to pile up costs for consumers to pay. That

coal dealers sometimes sell to each other is true, but such sales are incidental to the competition among consumers in times of scarcity. The emphasis is properly upon the condition of scarcity, rather than upon the machinations of dealers.

No part of this discussion is meant to convey the idea that there is no room for improvement in the methods of retail distribution. There is need for comprehensive study of terminal and wholesale market facilities in the cities, and it may be possible to develop methods of buying and selling by groups, which by enlisting the interest and active cooperation of members will accomplish economies. In such cases if the consumers organize to serve themselves they will expect to enjoy the benefits, and if the producers take over middlemen's services it will be for the same purpose. Meanwhile, among the middlemen thousands of bright minds, trained to the problem, are working on it all the time, prompted by the fact that every practical idea on the subject is worth a fortune to the possessor. The chain stores, mail order houses, "producer to consumer" advertising, illustrate the efforts constantly being made to cut out unnecessary costs.

A British Labor Leader

We take the following extract from an address by Mr. J. H. Thomas, head of the national union of railway employes, England, a member of Parliament and one of the leaders of the Labor party. Of course nothing but commendation can be given to the sentiments it expresses. It shows the sense of responsibility to the public which is the fundamental thing in the consideration of all industrial problems. The obligation to recognize this responsibility rests alike upon employers and wage-earners. When all parties are animated by this spirit, difficulties will be readily settled, and all will share in the benefits that result to the public:

We have succeeded, possibly for the first time in history, in establishing confidence between the management and ourselves. That is of immense value to the railway service as a whole. Our men sit down with the other side with confidence and with an independent feeling that they can plead the case of their fellow workers without fear or favor; and that inspires confidence that is of immense value to the railway companies and to the public. No mistaken

or blind policy should be followed that is going to shake that confidence, because if that policy should be pursued, I believe it will end in disaster.

I go further, and say to you employees, do not listen to these foolish people who are telling you to do as little as possible. It is not only morally and economically wrong, it is not only dishonest, but it must in the end react to your disadvantage if you are going to say to your companies, we are going to demand the best from you without giving the best in return. The only position that can rightly be taken up is to demand the best for yourselves and to say you are prepared to give the best return for what is given to you.

We have reached a stage where our prestige stands high. We are looked upon as a great factor in the life of the community. That prestige is something to be safeguarded and preserved. It is something that ought to enable every man to say, I am not only a member of a great union, I am not only a unit in a powerful organization, but I am jealous of the prestige and honor of the society of which I am a member; and any member who abuses his trust not only shakes the confidence of the travelling public in his industry, but he is doing something that is detrimental to the honor and prestige of his organization.

I call upon the moral determination of every man to say, I am going to be proud of my union. I am going to be jealous of its honor and reputation. I am going to act honorably to my employer, who is decent to me and to my union, and I myself will provide the check against attacks on the industry. That is the moral safeguard which should be taken. That is the kind of thing we want established in the railway service.

New York's Butter Supply

A table compiled by the Bureau of Markets of the Department of Agriculture shows that the mid-western States from Ohio on the east to Kansas, Nebraska and the Dakotas on the west supplied New York City with 92 per cent of its butter receipts by rail in the year 1922. The balance of its domestic supply came from widely scattered sources. In 1922 the eastern states furnished only a little over 5 per cent against 6.5 per cent in 1921, an evidence of the trend toward specialization in market milk production in this very populous section. The south and Pacific coast states are but minor contributors and receipts from Canada are moderate, though they have held their own in the face of the higher duties now prevailing.

It is a little difficult to determine the share of individual western states in the shipments to New York, owing to the fact that much of the butter is shipped first to Chicago, but Minnesota undoubtedly leads by a large margin. That state contributed in 1922 probably one-third of New York's rail receipts; Iowa holds second place, and Nebraska third.

THE NATIONAL CITY BANK OF NEW YORK

FIRST NATIONAL BANK

IN MINNEAPOLIS

MAIN OFFICE
FIFTH STREET AND MARQUETTE AVENUE

OFFICERS:

F. M. PRINCE, Chairman Board of Directors
J. S. POMEROY, Vice-President
P. J. LEEMAN, Vice-President
GEO. A. LYON, Vice-President
J. G. BYAM, Vice-President
E. E. BLACKLEY, Vice-President
FRED SPAFFORD, Vice-President
STANLEY H. BEZOIER, Cashier
JOHN G. MACLEAN, Assistant Cashier
K. M. MORRISON, Comptroller

F. A. CHAMBERLAIN, President
WALTER A. MEACHAM, Assistant Cashier
C. B. BROMBACH, Assistant Cashier
J. A. MURPHY, Assistant Cashier
J. CLAYTON, Assistant Cashier
G. WOODS SMITH, Assistant Cashier
W. A. VOLKMANN, Assistant Cashier
LYLE W. SCHOLES, Assistant Cashier
A. G. BJERKEN, Assistant Cashier
M. O. GRANGAARD, Assistant Vice-President

ST. ANTHONY FALLS OFFICE 328 EAST HENNEPIN AVENUE

JOSEPH E. WARE Vice-President	WM. E. NEUDECK Assistant Cashier
SAMUEL E. FOREST Vice-President	CHARLES A. PALMER Assistant Cashier
CHARLES L. CAMPBELL Assistant Vice-President	EDWIN R. WISTRAND Assistant Cashier

NORTH SIDE OFFICE WASHINGTON AND PLYMOUTH AVENUES

F. R. SLEAVIN
Assistant Cashier

BLOOMINGTON—LAKE OFFICE BLOOMINGTON AND LAKE

A. S. NEWCOMB Assistant Cashier	A. M. MACHO Assistant Cashier
------------------------------------	----------------------------------

MINNEHAHA OFFICE 2626 EAST TWENTY-FIFTH STREET

G. W. LALONE Assistant Vice-President	ARVID A. LUND Assistant Cashier
--	------------------------------------

WEST BROADWAY OFFICE WEST BROADWAY AT EMERSON

W. H. DAHN Vice-President	C. G. HABERLAND Assistant Cashier
------------------------------	--------------------------------------

CAPITAL AND SURPLUS - \$10,500,000

MINNEAPOLIS TRUST COMPANY 115 South Fifth Street

The First National Bank, Minneapolis Trust Company and
Hennepin County Savings Bank are under one ownership

